

November 15, 2016

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Rating	Accumulate
Price	Rs172
Target Price	Rs180
Implied Upside	4.7%
Sensex	26,819
Nifty	8,296

(Prices as on November 11, 2016)

Trading data

Market Cap. (Rs bn)	355.9
Shares o/s (m)	2,065.2
3M Avg. Daily value (Rs m)	1823.5

Major shareholders

Promoters	36.99%
Foreign	21.46%
Domestic Inst.	17.96%
Public & Other	23.59%

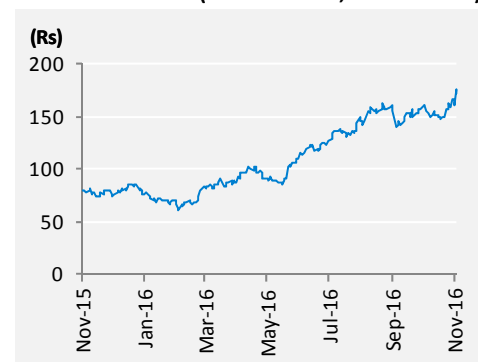
Stock Performance

(%)	1M	6M	12M
Absolute	7.3	88.2	114.8
Relative	11.8	83.4	111.1

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2017	19.8	12.2	62.4
2018	22.3	15.8	40.7

Price Performance (RIC: HALC.BO, BB: HNDL IN)



Source: Bloomberg

Hindalco (HNDL) reported Q2FY17 earnings below our estimates due to higher than expected costs in Aluminium (Al) business and lower by-product realisations in Copper (Cu) business. Costs were higher in Al biz due to fall in grade of coal supplied by Coal India (attributed to heavy monsoons) and higher Alumina cost sourced from Utkal Alumina. We keep our estimates unchanged as strong availability of domestic coal, stable prices of crude derivatives and full stabilisation of new smelters would keep costs low. Low capex requirement, focus on margin reach downstream product portfolio and Improved outlook on Novelis operations with swift transition to high margin Auto segment keeps outlook on strong footing. We maintain Accumulate rating with TP of Rs180, EV/EBITDA of 6.5x FY18E.

■ **Earnings hit primarily due to abnormal seasonal factors:** Al sales vol came higher than est. at 320kt (↑10% QoQ/↑16% YoY v/s PLe: 310kt). Cu sales vol were tad below our est. at 102kt (↑63% QoQ/↓2% YoY v/s PLe: 105kt). Al EBITDA fell 7% QoQ (↑192% YoY) at Rs8.1bn (PL:Rs9.7bn) on account of higher energy costs and higher share of exports (has lower margins v/s domestic). Cu EBITDA rose 38% QoQ (flat YoY) at Rs3.7bn (PL:Rs4.4bn) as prior quarter was impacted due to planned shutdown. Led by strong earnings in Al, EBITDA rose 88% YoY at Rs11.6bn (PL: Rs14.1bn). Aided by higher than expected other income, Adj. PAT rose 29% QoQ (2x YoY) to Rs3.8bn (PL:Rs4.2bn).

■ **Key highlights of Con-call:** 1) Hopeful that restriction in form of MIP or Anti-dumping duty on imports would be imposed before budget 2) Focused on B/S deleveraging wit targeted Net debt/EBITDA at 4x/3x by FY18E/FY19E 3) Given the debt reduction being a top priority, capex in next couple of years would be towards less capex intensive downstream capacity addition 4) Reiterated capex guidance of Rs10bn/year for next couple of years 5) The mix between source of coal between linkage/E-auction/imports stands at 60%:35%:5%) 6) Repaid debt of Rs8.7bn in H1 7) Net Debt (standalone+Utkal) stands at Rs19.2bn.

Key financials (Y/e March)	2015	2016	2017E	2018E
Revenues (Rs m)	1,042,811	1,000,538	1,047,110	1,100,522
Growth (%)	18.9	(4.1)	4.7	5.1
EBITDA (Rs m)	89,446	87,240	131,467	136,298
PAT (Rs m)	13,323	1,296	40,819	45,953
EPS (Rs)	6.5	0.6	19.8	22.3
Growth (%)	(46.6)	(90.3)	3,050.5	12.6
Net DPS (Rs)	1.0	1.0	1.2	1.5

Profitability & Valuation	2015	2016	2017E	2018E
EBITDA margin (%)	8.6	8.7	12.6	12.4
RoE (%)	3.4	0.3	10.1	10.4
RoCE (%)	3.3	3.0	6.6	6.8
EV / sales (x)	0.9	1.0	0.9	0.9
EV / EBITDA (x)	11.0	11.3	7.5	7.0
PE (x)	26.7	274.7	8.7	7.7
P / BV (x)	0.9	0.9	0.8	0.8
Net dividend yield (%)	0.6	0.6	0.7	0.9

Source: Company Data; PL Research

Exhibit 1: Q2FY17 Result Overview (Rs m)

Y/e March	Q2FY17	Q2FY16	YoY gr. (%)	Q1FY17	H1FY17	H1FY16	YoY gr. (%)
Net Sales	90,123	89,149	1.1	75,847	165,970	174,901	(5.1)
Raw Material	48,073	53,010	(9.3)	36,381	84,454	101,898	(17.1)
<i>% of Net Sales</i>	<i>53.3</i>	<i>59.5</i>		<i>48.0</i>	<i>50.9</i>	<i>58.3</i>	
Staff Costs	4,815	4,441	8.4	4,077	8,892	8,226	8.1
<i>% of Net Sales</i>	<i>5.3</i>	<i>5.0</i>		<i>5.4</i>	<i>5.4</i>	<i>4.7</i>	
Power & Fuel	14,823	16,821	(11.9)	14,849	29,671	33,263	(10.8)
<i>% of Net Sales</i>	<i>16.4</i>	<i>18.9</i>		<i>19.6</i>	<i>17.9</i>	<i>19.0</i>	
Other Expenses	10,848	8,731	24.2	9,294	20,142	16,685	20.7
<i>% of Net Sales</i>	<i>12.0</i>	<i>9.8</i>		<i>12.3</i>	<i>12.1</i>	<i>9.5</i>	
Total Expenditure	78,559	83,003	(5.4)	64,600	143,159	160,071	(10.6)
EBITDA	11,564	6,146	88.2	11,247	22,811	14,830	53.8
<i>Margin (%)</i>	<i>12.8</i>	<i>6.9</i>		<i>14.8</i>	<i>13.7</i>	<i>8.5</i>	
Depreciation	3,516	2,988	17.7	3,382	6,898	6,295	9.6
Other income	3,364	4,597	(26.8)	2,262	5,626	5,960	(5.6)
EBIT	11,412	7,755	47.2	10,127	21,539	14,494	48.6
Interest	5,943	6,275	(5.3)	5,996	11,938	12,314	(3.1)
PBT	5,469	1,480	269.6	4,131	9,600	2,180	340.4
Extraordinary income/(expense)	849	-		-	849	-	
PBT (After EO)	6,318	1,480	326.9	4,131	10,449	2,180	379.3
Tax	1,929	243	694.6	1,189	3,117	329	847.8
<i>% PBT</i>	<i>30.5</i>	<i>16.4</i>		<i>28.8</i>	<i>29.8</i>	<i>15.1</i>	
Reported PAT	4,389	1,237	254.8	2,943	7,332	1,851	296.1
Adjusted PAT	3,800	1,237	207.1	2,943	6,736	1,851	263.9

Source: Company Data, PL Research

Exhibit 2: Operating Metrics

Y/e March	Q2FY17	Q2FY16	YoY gr. (%)	Q1FY17	H1FY17	H1FY16	YoY gr. (%)
LME Aluminum average (US\$)	1,618	1,595	1.5	1,572	1,595	1,681	(5.1)
LME Copper average (US\$)	4,775	5,274	(9.5)	4,736	4,756	5,660	(16.0)
Rs/US\$	67.0	64.9	3.2	66.9	67.0	64.2	4.3
Production (tonnes)							
Aluminium	321,000	269,000	19.3	308,000	629,000	533,000	18.0
Copper	106,000	100,000	6.0	65,000	171,000	202,000	(15.3)
Segment-wise break-up							
Revenue (Rs m)							
Aluminum	49,302	44,961	9.7	45,906	95,208	84,617	12.5
Copper	46,348	50,706	(8.6)	35,710	82,058	96,847	(15.3)
EBIT (Rs m)							
Aluminum	8,076	2,767	191.9	8,711	16,787	8,263	103.2
Copper	3,659	3,662	(0.1)	2,643	6,302	7,641	(17.5)

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2015	2016	2017E	2018E
Net Revenue	1,042,811	1,000,538	1,047,110	1,100,522
Raw Material Expenses	651,631	598,935	635,163	668,863
Gross Profit	391,180	401,603	411,947	431,659
Employee Cost	79,912	81,381	76,750	80,822
Other Expenses	221,822	232,982	203,729	214,538
EBITDA	89,446	87,240	131,467	136,298
Depr. & Amortization	35,906	41,961	47,207	48,821
Net Interest	41,784	50,467	47,999	44,237
Other Income	(8,354)	8,842	15,056	15,487
Profit before Tax	3,402	3,654	51,318	58,728
Total Tax	2,564	5,148	13,198	14,706
Profit after Tax	838	(1,494)	38,120	44,022
Ex-Od items / Min. Int.	(8,991)	708	869	1,709
Adj. PAT	13,323	1,296	40,819	45,953
Avg. Shares O/S (m)	2,065.2	2,065.2	2,065.2	2,065.2
EPS (Rs.)	6.5	0.6	19.8	22.3

Cash Flow Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
C/F from Operations	71,431	102,710	115,070	124,945
C/F from Investing	(37,931)	(32,812)	(67,829)	(36,342)
C/F from Financing	(24,371)	(72,594)	(48,703)	(83,283)
Inc. / Dec. in Cash	9,129	(2,696)	(1,461)	5,320
Opening Cash	34,576	44,327	41,631	40,170
Closing Cash	43,705	41,631	40,170	45,490
FCFF	(76,364)	(210,788)	156,251	46,297
FCFE	(39,266)	(220,325)	158,421	10,844

Key Financial Metrics

Y/e March	2015	2016	2017E	2018E
Growth				
Revenue (%)	18.9	(4.1)	4.7	5.1
EBITDA (%)	7.9	(2.5)	50.7	3.7
PAT (%)	(46.5)	(90.3)	3,050.5	12.6
EPS (%)	(46.6)	(90.3)	3,050.5	12.6

Profitability

EBITDA Margin (%)	8.6	8.7	12.6	12.4
PAT Margin (%)	1.3	0.1	3.9	4.2
RoCE (%)	3.3	3.0	6.6	6.8
RoE (%)	3.4	0.3	10.1	10.4

Balance Sheet

Net Debt : Equity	1.6	1.6	1.5	1.3
Net Wrkng Cap. (days)	10	6	11	15

Valuation

PER (x)	26.7	274.7	8.7	7.7
P / B (x)	0.9	0.9	0.8	0.8
EV / EBITDA (x)	11.0	11.3	7.5	7.0
EV / Sales (x)	0.9	1.0	0.9	0.9

Earnings Quality

Eff. Tax Rate	75.4	140.9	25.7	25.0
Other Inc / PBT	48.4	174.9	29.3	26.4
Eff. Depr. Rate (%)	4.0	3.6	4.4	4.4
FCFE / PAT	(294.7)	(17,005.3)	388.1	23.6

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
Shareholder's Funds	383,285	384,138	422,082	464,441
Total Debt	684,050	674,513	676,684	641,231
Other Liabilities	57,193	45,168	44,253	44,143
Total Liabilities	1,124,528	1,103,819	1,143,019	1,149,814
Net Fixed Assets	734,966	850,942	731,712	719,233
Goodwill	131,602	139,852	139,852	139,852
Investments	123,463	143,239	145,023	146,842
Net Current Assets	120,567	93,640	110,434	127,889
<i>Cash & Equivalents</i>	<i>53,090</i>	<i>43,120</i>	<i>41,659</i>	<i>46,980</i>
<i>Other Current Assets</i>	<i>374,337</i>	<i>348,315</i>	<i>372,722</i>	<i>392,795</i>
<i>Current Liabilities</i>	<i>306,861</i>	<i>297,795</i>	<i>303,947</i>	<i>311,885</i>
Other Assets	13,930	15,998	15,998	15,998
Total Assets	1,124,528	1,243,672	1,143,019	1,149,814

Quarterly Financials (Rs m)

Y/e March	Q3FY16	Q4FY16	Q1FY17	Q2FY17
Net Revenue	81,013	86,675	75,847	90,123
EBITDA	6,226	11,664	11,247	11,564
% of revenue	7.7	13.5	14.8	12.8
Depr. & Amortization	3,080	3,412	3,382	3,516
Net Interest	5,824	5,747	5,996	5,943
Other Income	2,501	2,041	2,262	3,364
Profit before Tax	313	4,547	4,131	6,318
Total Tax	(92)	983	1,189	1,929
Profit after Tax	405	3,563	2,943	4,389
Adj. PAT	(229)	3,563	2,943	3,800

Key Operating Metrics

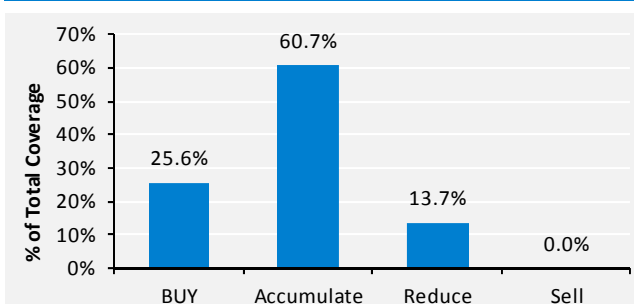
Y/e March	2015	2016	2017E	2018E
Aluminium (Al) prod (t)	836,000	1,136,000	1,263,240	1,276,000
Copper (Cu) prod (t)	386,000	389,000	382,500	400,001
LME-Al (USD/t)	1,890	1,591	1,650	1,700
LME-Cu (USD/t)	6,568	5,217	5,000	5,300

Source: Company Data, PL Research.

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